

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE PHOKWANE LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Phokwane Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statements of financial performance, changes in net assets, the statement of comparison of budget and actual amounts and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for all property, plant and equipment for the current and prior year due to the status of the accounting records. Assets were not individually identifiable and could not be traced to and from the asset register. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to property, plant and equipment stated at R284 210 737 (2012: R184 628 534) in the financial statements was necessary. (Ex. 58, Ex. 64, Ex.99, Ex.113, Ex.123, Ex.129, Ex.147, Ex.150, Ex. 180, Ex. 153, Ex. 152, Ex. 154, Ex. 132, Ex. 131, Ex.149, Ex.179) (Ex.2)
5. The municipality did not classify completed work-in-progress as infrastructure. In addition to this they also misclassified operational expenditure as work-in-progress. This is not in accordance with the Standards of GRAP, GRAP 17, *Property, plant and equipment*. Consequently property, plant and equipment has been understated by R1 258 220 and operating expenditure by R475 110 respectively. Work in progress is overstated by the amount of R1 733 330. Consequently, I was unable to determine whether adjustments to the financial statements were necessary. (Ex.151), (Ex.148)

Other operational expenditure

6. I was also unable to obtain sufficient appropriate audit evidence to confirm the amount stated as other operational expenditure of R116 346 175 (2012: R101 887 542) as disclosed in the financial statements due to the status of the accounting records. I was unable to confirm the amounts disclosed by alternative means. Consequently, I was unable to determine whether adjustments to the financial statements were necessary. (Ex.142, Ex.125, Ex.98, Ex.38, Ex.29,Ex.166) (Ex.6)
7. The municipality incorrectly classified grants and subsidies expenditure as a separate line item in the statement of financial performance. This is not in accordance with GRAP 1, *Presentation of financial statements* which requires that expenditure is classified either according to the nature of the expense or the function. Consequently grants and subsidies paid is overstated by R3 188 697. Training expenditure is understated by R409 382, contracted services by R660 380, employee-related cost by R254 158, general expenses by R143 575, chemicals by R1 534 521 and property, plant and equipment by R186 681 respectively. (Ex. 63)

Investment property

8. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for investment property due to the status of the accounting records. I was unable to confirm the investment property by alternative means. Consequently, I was unable to determine whether any adjustment to the investment property stated at R17 185 852 (2012: R3 536 463) in the financial statements was necessary. (Ex. 162, Ex. 161,Ex.126) (Ex.13)

Revenue

9. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for revenue for the current and prior year. This was mainly due to the status of the accounting records that did not allow us to obtain sufficient appropriate audit evidence to confirm government grants and subsidies, income from agency services, property rates, service charges, other income, and licences and permits. I was unable to obtain sufficient appropriate audit evidence that all revenue was accounted for as consumers were not always billed for services rendered. In addition to this, indigent subsidies were not separately accounted for as revenue and expenditure as required by GRAP 9, *Revenue from exchange transactions*. I was unable to confirm the revenue by alternative means. Consequently, I was unable to determine whether any adjustments to the revenue stated at R235 278 495 (2012: R184 272 231) were necessary. (Ex.49, Ex.129, Ex. 133, Ex.134, Ex.166, Ex. 167, Ex. 168, Ex. 170, Ex. 196, Ex. 198, Ex. 208, Ex. 188) (Ex.1)

Receivables from exchange and non-exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for receivables for the current and prior year due to the status of the accounting records. Suspense accounts were not cleared at year-end. Some service charges, property rates and interest were not levied. The total extent of these errors could not be determined. I was unable to confirm receivables by alternative means. Consequently, I was unable to determine whether any adjustment to receivables stated at R39 309 593 (2012: R19 811 306) in the financial statements was necessary. (Ex. 93, Ex 160, Ex165, Ex. 187, Ex. 186) (Ex.4) (Ex.8)
11. The municipality did not classify suspense accounts as revenue and unspent conditional grants. This is not in accordance with GRAP 1, *Presentation of financial statements*. In addition to this the municipality classified long-term receivables as

current receivables. Consequently, receivables are overstated by R1 317 067, revenue by R7 239, unspent conditional grants by R1 000 000 and long-term receivables by R309 828. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus. (Ex. 93, Ex.102)

12. The municipality incorrectly recognised receivables in contravention of GRAP 1, *Presentation of financial statements*. Consequently, receivables and revenue are overstated by R3 515 212. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus. (Ex.184)
13. The recoverability of debtors was not evaluated for impairment per financial asset or group of financial assets as required by GRAP 104, *Financial Instruments*. Consequently receivables are overstated and expenditure understated by R953 633. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus. (Ex. 172, Ex.183)
14. The municipality did not disclose receivables per category and amounts owed by other spheres of government as required by GRAP 1.88, *Presentation of financial statements*. (Ex.128)

Employee-related cost

15. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for all employee-related cost for the current and prior year due to the status of the accounting records. I was unable to confirm the employee-related cost by alternative means. Consequently, I was unable to determine whether any adjustment to employee-related cost stated at R47 456 426 (2012: R42 757 378) as disclosed in the statement of financial performance was necessary. (Ex.104, Ex. 55, Ex. 50, Ex. 46, Ex. 44, Ex. 26, Ex.206) (Ex.5)
16. The municipality incorrectly recognised employee-related cost in contravention of GRAP 1, *Presentation of financial statements*. The municipality incorrectly calculated and paid overtime to employees in the municipality. Receivables were not raised to recover these amounts. Consequently, receivables is understated and employee-related cost overstated by R102 272. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus. (Ex. 56)

Depreciation, amortisation and impairments

17. I was unable to obtain sufficient appropriate audit evidence that management had properly charged and accounted for depreciation for the current and prior year due to the limitations of the fixed asset register. I was unable to confirm the depreciation by alternative means. Consequently, I was unable to determine whether any adjustment to depreciation stated at R7 379 306 (2012: R6 917 701) in the financial statements was necessary. (Ex. 58, Ex. 123, Ex.117)
18. The municipality did not recognise depreciation as per GRAP 1, *Presentation of financial statements*. The municipality depreciated inventory that was incorrectly classified as investment property. Consequently depreciation was overstated and property, plant and equipment understated by R397 447. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus. (Ex.100)

Payables from exchange transactions

19. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for payables for the current and prior year due to the status of the accounting records. I was unable to confirm the payables by alternative means. Consequently, I was unable to determine whether any adjustment to the payables stated at R11 022 257 (2012: R5 497 495) in the financial statements was necessary. Additionally, there is a consequential impact on the value added tax for the current

year. (Ex. 130, Ex. 139, Ex. 129,206) (Ex.11)

Unspent conditional grants and receipts

20. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for unspent conditional grants and receipts for the current and prior year as sufficient appropriate audit evidence to substantiate grant expenditure could not be submitted. I was unable to confirm the unspent conditional grants by alternative means. Consequently, I was unable to determine whether any adjustment to the unspent conditional grants stated at R7 337 556 (2012: R7 009 260) in the financial statements was necessary. (Ex. 188) (Ex.16)

Inventory

21. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for inventory for the current and prior year as water inventory in the water network was not disclosed in the financial statements. I was unable to confirm the inventory by alternative means. Consequently, I was unable to determine whether any adjustment to the inventory stated at R1 909 437 (2012: R1 283 041) in the financial statements was necessary. (Ex.148, Ex. 100, Ex. 176,Ex. 88) (Ex.14)
22. The municipality incorrectly classified non-current assets held for sale as investment property and property, plant and equipment. This is not in accordance with GRAP 100, *Non-current assets held for sale*. Consequently, inventory is understated by R11 943 836. Investment property is overstated by R11 923 416 and property, plant and equipment by R20 419 respectively. (Ex.100, Ex138)

Provisions

23. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for the provision for landfill sites for the current and prior year because the detailed assumptions and supporting documentation used by the expert to value the landfill sites were not submitted. I was unable to confirm the provision for landfill sites by alternative means. Consequently, I was unable to determine whether any adjustment to the provision stated at R15 849 997 (2012: R4 429 126) in the statement of financial position was necessary. This also had an effect on the decommissioning cost of capital that was not recognised. (Ex. 191, Ex. 163) (Ex.15)
24. All landfill sites and refuse dumping sites that should be provided for for future rehabilitation as required by GRAP 19 *Provisions*, were not identified and included in the financial statements. I was unable to determine the correct value of provisions to be separately disclosed in the current year as it was impracticable to do so. (Ex.15)

Irregular expenditure

25. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for all irregular expenditure for the current and prior year due to the status of the accounting records. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to irregular expenditure stated at R8 832 749 (2012: R8 651 655) in the financial statements was necessary. (Ex.68, Ex.124) (Ex.9)
26. Some instances of non-compliance with laws and regulations were not identified and disclosed by the municipality. It was impracticable to determine the total extent of the error. (Ex.37, Ex.60, Ex.67, Ex.72, Ex.73, Ex.74, Ex.76, Ex.122)

Commitments

27. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for commitments for the current and prior year due to the status of

the accounting records and the fact that adequate systems to identify all commitments were not in place. The full extent of this error could not be determined. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustment to the commitments stated at R81 474 053 (2012: R60 457 510) in the financial statements was necessary. (Ex. 174, Ex. 119, Ex.177) (Ex.19)

Intangible assets

28. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for all intangible assets for the current and prior year due to the status of the accounting records. I was unable to confirm the intangible assets by alternative means. Consequently, I was unable to determine whether any adjustment to the intangible assets disclosed at R9 678 (2012: R15 492) in the financial statements was necessary. (Ex.101) (Ex. 18)

Cash flow statement

29. I was unable to confirm that the current and comparative cash flow statements were correct due to the limitations experienced as included under the Basis of disclaimer paragraphs. I was not able to perform alternative procedures. Consequently, I was unable to determine whether any adjustment relating to the cash flow statement in the financial statements was necessary. (Ex.178)

Budget disclosure

30. The approved adjustment budget as stipulated in GRAP 24, *Presentation of budget information in the AFS* was not properly disclosed in the financial statements, as the structure of the budget comparison is not aligned to the financial statements. No reasons for variances are disclosed and no accounting policy for the budget is disclosed. (Ex.182)

Cash and cash equivalents

31. During 2011 I was unable to obtain sufficient appropriate audit evidence for journal entries amounting to R49 643 976 and unreconciled bank reconciliations as disclosed in the financial statements to the amount of R10 541 706. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustments to the current and prior year were necessary. (Ex. 3)

Retirement benefit obligation

32. I was unable to obtain sufficient appropriate audit evidence that management had properly classified and accounted for all employee benefits for the current and prior year due to the status of the accounting records. I was unable to confirm the employee benefits by alternative means. Consequently, I was unable to determine whether any adjustment to the employee benefit obligation disclosed at R18 153 983 (2012: R19 261 675) in the financial statements was necessary. (Ex. 190, Ex. 12)

Contingent liabilities

33. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for all contingent liabilities relating to the prior year as some legal representation letters could not be submitted. I was unable to confirm the prior-year contingent liabilities by alternative means. Consequently, I was unable to determine whether any adjustment to the prior-year figure stated at R22 128 275 in the financial statements was necessary. (Ex. 21, Ex.185)

Value-added tax

34. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for the value-added tax relating to the prior year. I was unable to

confirm the prior year's value-added tax by alternative means. Consequently, I was unable to determine whether any adjustment to the prior-year figure stated at R10 933 425 in the financial statements was necessary. **(Ex. 10)**

Fruitless and wasteful expenditure

35. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for the fruitless and wasteful expenditure relating to the prior year. I was unable to confirm the prior year's fruitless and wasteful expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to the prior-year figure stated at R263 491 in the financial statements was necessary. **(Ex. 20)**

Material losses

36. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for the material losses relating to the prior year. I was unable to confirm the prior-year material losses by alternative means. Consequently, I was unable to determine whether any adjustment to the prior-year figure stated at R18 389 262 in the financial statements was necessary. **(Ex. 22)**

Disclaimer of opinion

37. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

38. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

39. With reference to note 36 to the financial statements, the municipality is the defendant in a number of possible claims. The ultimate outcome of these matters cannot be determined at present and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

40. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2012-13 in the financial statements of the Phokwane Local Municipality at, and for the year ended, 30 June 2012.

Material losses/impairments

41. As disclosed in note 46.2 to the financial statements, material losses were incurred as a result of units lost during the distribution of electricity and water.

Type of material misstatement	Percentage of units lost
Electricity units (KWh)	22.01%
Electricity units (kVA)	59.93%
Water distribution losses (mega-litres)	39.89%

Material underspending of the budget

42. As disclosed in the appropriation statement, the municipality has materially underspent the budget by R15 997 894. It was not possible to determine the effect on service delivery of the underspending of the budget.

Additional matter

43. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material inconsistencies in other information included in the annual report

44. The annual report had not been received at the date of this report; as a result, a conclusion could not be drawn on the consistency of the financial statements and the audit report with other information included in the annual report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

45. The annual performance report was not presented for audit and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.
46. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

Usefulness of information

47. The framework for managing programme performance information requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 49% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the framework for managing programme performance information but chose not to apply the principles contained in the framework for managing programme performance information.
48. The framework for managing programme performance information requires that performance targets be measurable. The required performance could not be measured for a total of 49% of the targets. This was due to the fact that management did not implement a sufficient process for reporting on predetermined objectives.
49. The framework for managing programme performance information requires that indicators/measures should have clear, unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the framework for managing programme performance information but chose not to apply the principles contained in the framework for managing programme performance information.

50. The framework for managing programme performance information requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the framework for managing programme performance information, but chose not to apply the principles contained in the framework for managing programme performance information. (Ex.36, Ex.78, Ex.92, Ex.106)

Compliance with laws and regulations

51. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the Public Audit Act are as follows:

Strategic planning and performance management

52. The municipality did not establish a sufficient performance management system, as required by section 38(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000). Ex.78
53. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the Municipal Systems Act. Ex.78
54. The performance management system framework of the municipality does not include the specific priorities, objectives, indicators and targets as contained in the integrated development plan. Ex. 78
55. The municipality's performance management system does not include policies and procedures to improve performance as required by section 41(1)(d) of the Municipal Systems Act. Ex. 78

Budgets

56. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the Municipal Finance Management Act. Ex. 63, Ex. 120
57. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the Municipal Finance Management Act. Ex. 207

Annual financial statements, performance and annual reports

58. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act.
59. Material misstatements of non-current assets, current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided afterwards, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer of audit opinion.
60. The annual report had not been received at the date of this report, with the result that a conclusion could not be drawn on the consistency of the financial statements and the audit report with other information included in the annual report. Ex. 106

Supply chain management

61. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the Municipal Finance Management Act. **Ex. 69**
62. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the Municipal Finance Management Act. **Ex. 67**
63. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1). **Ex. 67**
64. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations. **Ex. 74**
65. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5) and its regulations. **Ex. 74**
66. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM Regulation 17(a) & (c). **Ex.60**
67. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the Municipal Finance Management Act. **Ex. 69**
68. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c). **Ex. 37**
69. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of Municipal Finance Management Act 112(j) and SCM Regulation 44. **Ex. 71**
70. Sufficient appropriate audit evidence could not be obtained that all contracts and/or quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive. **Ex. 68**

Human resource management

71. Appointments
 - Job descriptions were not established for certain posts in which appointments were made in the current year, in contravention of section 66(1)(b) of the Municipal Systems Act. **Ex.54**
72. Performance management
 - The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of section 67(d) of the Municipal Systems Act. **Ex.59**
 - The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the Municipal Systems Act. **Ex. 59**

Expenditure management

- 73. Money owed by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the Municipal Finance Management Act. **Ex.53**
- 74. Payments were made without the approval of the accounting officer or a properly authorised official as required by section 11(1) of the Municipal Finance Management Act. **Ex. 83**
- 75. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the Municipal Finance Management Act. **Ex.53**
- 76. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the Municipal Finance Management Act. **Ex.53**
- 77. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act. **Ex. 120**

Conditional grants received

- 78. The municipality did not submit project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, *Government Gazette* No. 35399. **Ex. 96**
- 79. The municipality did not register its master plans for bulk infrastructure with the Integrated National Electrification Programme, as required by the Division of Revenue Grant Framework, *Government Gazette* No. 35399. **Ex. 205**
- 80. Sufficient appropriate audit evidence could not be obtained that the allocation for the Municipal Infrastructure Grant was utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of Division of Revenue Act. **(Ex.188)**

Revenue management

- 81. An adequate management, accounting and information system which accounts for debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the Municipal Finance Management Act. **Ex. 165, Ex. 166, Ex. 167, Ex. 168, Ex. 198, Ex. 199, Ex. 197**
- 82. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the Municipal Finance Management Act. **Ex. 165, Ex. 166, Ex. 167, Ex. 168, Ex. 198, Ex. 199, Ex. 197, Ex. 170**

Asset management

- 83. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2) (a) of the Municipal Finance Management Act. **Ex. 113**
- 84. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act. **Ex. 58**

Liability management

85. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act. **Ex. 139, Ex. 11**

Internal control

86. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

87. The following challenges were experienced that contributed to the weaknesses in the financial environment and the ultimate audit outcome:
- The leadership did not effectively review the financial statements and reporting on predetermined objectives to ensure that it was free from material misstatement.
 - The leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management directorates, resulting in non-compliance with applicable legislation and inadequate budget control measures. This, in turn, resulted in irregular, fruitless and wasteful as well as unauthorised expenditure.
 - Leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

Financial and performance management

88. The municipality did not have individuals who sufficiently understood the financial reporting framework and performance and financial management requirements, with the result that the municipality engaged a consultant to assist in the compilation of the fixed asset register and financial statements.
89. The underlying accounting records of the municipality did not facilitate the preparation of the financial statements to comply with the accounting framework.
90. Manual or automated controls were not designed to ensure that the transactions had occurred, were authorised, and were completely and accurately processed. Documentation supporting amounts disclosed in the financial statements was not always available due to the lack of an adequate filing system.
91. Management did not document and approve internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting on predetermined objectives. This was due to a lack of understanding of the processes that should be performed to prepare a complete and valid report on predetermined objectives. Consequently, performance systems, processes and procedures had not been designed and implemented.

Governance

92. The risk of material misstatement due to fraud was not considered due to a formal fraud prevention and detection unit not being established. Sufficient controls and segregation of duties to prevent or detect fraudulent data and asset misappropriation were not implemented and maintained. The municipality did not respond to the assessed risks by implementing a risk strategy and action plan to manage identified

risks. Consequently, internal controls were not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

93. The financial statements were subject to material corrections resulting from the audit, which can be attributed to the lack of implementation of risk assessments, weaknesses in the design and implementation of internal control in respect of financial management and financial reporting, and weaknesses in the information systems.

Kimberley

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence